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Directors

- ***Peter A. Allen,
President,
Willroy Mines Limited
Toronto, Ontario.
- *Edward G. Battle,
President and Chief Operating Officer,
Northern and Central Gas Corporation
Limited,
Toronto, Ontario.
- *Edmund C. Bovey,
Chairman of the Board and Chief
Executive Officer,
Northern and Central Gas Corporation
Limited,
Toronto, Ontario.
- *C. Spencer Clark,
Vice-Chairman of the Board,
Northern and Central Gas Corporation
Limited,
Toronto, Ontario.
Chairman of the Board,
Cascade Natural Gas Corporation,
Seattle, Washington.
- *E. Jacques Courtois, Q.C.
Chairman of the Board,
Gaz Métropolitain, inc.,
Montreal, Quebec.
- Robert B. Craddock,
Prescott, Arizona.
- *M. Clifford Deans,
Honorary Vice-Chairman,
Crang & Ostiguy Inc.,
Toronto, Ontario.
- *Edward A. Galvin,
Chairman Executive Committee,
Northern and Central Gas Corporation
Limited.
Chairman of the Board and President,
Canadian Industrial Gas & Oil Ltd.,
Calgary, Alberta.
- ***Frederick A. M. Huycke, Q.C.
Partner, Osler, Hoskin & Harcourt,
Toronto, Ontario.
- *Raymond Lavoie,
President and Chief Executive Officer,
Crédit Foncier Franco-Canadien,
Montreal, Quebec.
- A. Searle Leach,
Chairman of the Board,
Federal Industries Ltd.,
Winnipeg, Manitoba.
- V. Theodore Low,
Limited Partner,
Bear, Stearns & Co.,
New York, N.Y.
- Donald McKelvie,
Chairman of the Board,
Northern Telephone Limited,
New Liskeard, Ontario.
- *Blanche Noyes,
Senior Vice-President,
Hornblower & Weeks-Hemphill,
Noyes Inc.,
New York, N.Y.
- ***Linden J. Richards,
Oil and gas consultant and
Chairman of the Board,
Quintana Exploration Co.,
Calgary, Alberta.
- *Executive Committee
**Audit Committee
***Pension Committee

Officers

- Edmund C. Bovey,
Chairman of the Board and
Chief Executive Officer
- C. Spencer Clark,
Vice-Chairman of the Board
- Edward G. Battle,
President and Chief Operating Officer
- Timothy G. Sheeres,
Executive Vice-President,
Finance and Corporate Affairs
- Jean J. Leroux,
Executive Vice-President, Operations
- William T. Kilbourne,
Vice-President, Legal and Secretary
- Robert T. Rhodes,
Vice-President, Gas Supply
- Lawrence W. Blaine,
Vice-President, Finance
- Leslie L. Hartford,
Vice-President, Marketing and
Development
- Robert B. Snyder,
Vice-President, Operations
- Alick S. G. Duguid,
Treasurer
- Olga Boychuk,
Assistant Secretary
- Mart Pedel,
Assistant Treasurer
- Alfred E. Sharp,
Senior Vice-President, Quebec
- Austin P. Rathke,
Senior Vice-President, Winnipeg

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NORTHERN AND CENTRAL GAS CORPORATION LIMITED

4600 Toronto-Dominion Centre,
Toronto, Ontario M5K 1E5

PRINCIPAL OPERATING COMPANIES:

Alberta

Canadian Industrial Gas & Oil Ltd.
640 Eighth Avenue, S.W., Calgary T2P 1G9

Coleman Collieries Limited
Coleman

Manitoba

Greater Winnipeg Gas Company
265 Notre Dame Avenue
Winnipeg R3B 1N9

Ontario

NCgas
150 Consumers Road,
Willowdale M2J 1R1

Champion Pipe Line Corporation Limited
4600 Toronto-Dominion Centre
Toronto M5K 1E5

Northern Ontario Acceptance Company
Limited
4600 Toronto-Dominion Centre
Toronto M5K 1E5

Quebec

Gaz Métropolitain, inc.
1717 du Havre St., Montreal 134

Gaz du Québec, inc.
1717 du Havre St., Montreal 134

Le Gaz Provincial du Nord de Québec Ltée
401 Richard Street, Rouyn

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NORTHERN
and
Central Gas
Corporation
Limited



INTERIM REPORT
June 30, 1973



NORTHERN AND CENTRAL GAS CORPORATION LIMITED

4600 Toronto-Dominion Centre,
Toronto, Ontario M5K 1E5



NORTHERN AND CENTRAL GAS CORPORATION LIMITED

To the Shareholders:

During the first six months of 1973 sales and other revenues were \$125,933,000 compared to \$117,393,000 in the first half of 1972. Consolidated net income increased 14% from \$11,953,000 to \$13,680,000 in 1973. Basic earnings per share were 85¢ in 1973, up from 80¢ in 1972.

The consolidated results for the first six months are an indication of the benefits that can accrue from diversification within the energy field: while the effect of weather tended to inhibit the earnings growth in the gas distribution operations, this was more than compensated by the significant advances made in the oil and gas production operations.

In spite of the fact that the weather across the gas distribution area was 13% warmer than in 1972, utility sales and other revenues advanced 5% to \$92,212,000 from \$87,713,000 in 1972, reflecting not only price improvements but also a 4% increase in volume of gas sales. We believe that this achievement is a reflection of the awareness by present and potential gas customers that, while gas prices are moving upwards, prices of other energy sources are also rising. Gas costs to the utility operations were increased approximately 5% effective June 1, 1973 following a

lengthy proceeding before the National Energy Board: the gas distributors have obtained, or are in the process of seeking, approval to recover these additional costs through higher rates. The matter of well head price of gas has not yet been resolved, although considerable progress is being made: a majority of gas producers has accepted the offer by TransCanada of 26¢ per mcf commencing November 1, 1973 for gas subject to price renegotiation. Price of non-ferrous metal supplies required in the future have yet to be determined: it is noteworthy that in Canada, unlike the much discussed energy supply crisis in the United States, the present uncertainty relates to energy price rather than adequate supply. Utility operations contributed \$9,783,000 to consolidated net income in the first six months of 1973 compared to \$9,315,000 in 1972.

CIGOL's revenues and earnings in 1973 have benefitted from higher well head prices for oil as well as increased production, and further improvements are anticipated from higher gas prices contracted for later in 1973. Revenues for the first six months of 1973 were \$26,246,000 compared to \$22,926,000 in the first half of 1972. To date in 1973 CIGOL has participated in the drilling of 54 wells, including

13 oil and 10 gas wells. Contribution to consolidated net income increased from \$2,930,000 in 1972 to \$4,150,000 in 1973.

Coal production at Coleman Collieries is being maintained at the levels called for under the interim agreement with the Japanese steel mills. After charging all current mining and development costs, Coleman's operations in the first half of 1973 produced a cash flow of \$182,000 compared with a deficit of \$1,298,000 in the same period a year ago. Net loss after depreciation and amortization was \$308,000 in the first six months of 1973 compared with a loss of \$356,000 in 1972. Discussions have recently been commenced with its customers with a view to improving the return on Coleman's production and at the same time providing assurance of the adequacy of future reserves.

For the remainder of 1973 it is anticipated that the incremental improvements in consolidated revenues and earnings experienced in the first half of 1973 will be maintained.

C. Spencer Clark

Edmund C. Bovey

Chairman of the Board

President and
Chief Executive Officer

August 3, 1973

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS (Unaudited) (Thousands of Dollars)

	6 Months Ended June 30	1972
Source of Funds		
From operations	\$ 13,680	\$ 11,953
Consolidated net income	15,450	12,460
Charges not requiring funds (depreciation, depletion, amortization and minority interests)	29,130	24,413
Issue of preference shares for cash	13	37,500
Issue of common shares for cash	29,143	9
		61,922
Application of Funds		
Net additions to property, plant and equipment	16,156	19,808
Decrease in bank loans	14	4,735
Retirement of long-term debt	2,709	4,174
Dividends on common shares	4,024	4,023
Dividends on preference shares	2,324	1,216
Decrease in minority interest	348	124
Redemption of preference shares	120	322
Financing expenses and other deferred charges	1,319	2,373
Increase in investments	1,890	979
Acquisition of shares of subsidiaries	1,318	13
Other items — net	74	57
	30,296	37,824
Increase (Decrease) in Working Capital	\$ (1,153)	\$ 24,098

COMPARATIVE STATEMENT OF INCOME (Unaudited) (Thousands of Dollars)

	6 Months Ended June 30	1972	12 Months Ended June 30	1972
Revenues				
Sales and other revenues	\$125,933	\$117,393	\$229,578	\$206,194
Costs and Expenses				
Gas purchases	54,148	51,050	108,439	96,545
Production, operations and maintenance	24,789	23,653	46,280	39,910
Depreciation and depletion	11,345	9,675	21,888	17,700
Taxes other than income taxes	2,718	2,886	5,159	5,444
Interest	13,284	12,802	25,361	25,061
Income taxes	2,090	2,340	1,255	909
	108,374	102,406	203,332	185,569
Income before minority interests	17,559	14,987	26,246	20,625
Minority interests in subsidiaries	402	456	857	913
Preference share dividends	3,477	2,578	6,023	4,665
Common share earnings	3,879	3,084	6,880	5,578
Consolidated Net Income	13,680	11,953	19,366	15,047
Dividends on Preference Shares	2,324	1,216	4,712	2,515
Net Income Applicable to Common Shares	\$ 11,356	\$ 10,737	\$ 14,654	\$ 12,532
Earnings per Share:				
basic	\$.85	\$.80	\$ 1.09	\$.94
fully diluted	\$.73	\$.74	\$ 1.02	\$.92

and imposes a system of double taxation. After-tax proceeds to producers would be less than the cost of replacing production, and in some cases less than the historical unit costs of developing the reserves. It is to be hoped that the recently elected federal majority government will eliminate this basic injustice in order to encourage the further development of much needed energy reserves in Canada.

CIGOL's revenues for the first six months of 1974 were \$36,864,000 compared to \$26,246,000 in the first half of 1973. Contribution to consolidated net income increased from \$2,597,000 (restated) in 1973 to \$4,109,000 in 1974.

To date in 1974 CIGOL has participated in the drilling of 41 wells resulting in 4 oil and 10 gas wells. CIGOL has now earned a 20% interest in 155,000 acres on the Tuktoyaktuk Peninsula. The Russell H-23 well drilled on this acreage flowed gas at rates up to 1 MMcf per day and CIGOL plans further exploratory drilling to earn interests in additional acreage. Exploratory wells are currently being drilled in the North Sea on Block 210-19 and in Turkey, in which the company owns interests of 15% and 20% respectively. The latter well has tested oil, however the significance of the discovery is unknown at this time.

Coal Production

For the first six months of the year, 474,000 clean short tons of coal were produced compared with 453,000 tons in 1973. Contribution to consolidated net income was \$1,762,000 after reduction of income taxes of \$856,000 which resulted from the application of prior years' tax losses and this compares with a net loss of \$252,000 in 1973. Production from a new open pit mine is planned to commence early in 1975.

Outlook

The realization of Canada's economic potential depends in large measure on the continued development of energy resources. Northern and Central is in a favourable position to assist and participate in this development. We expect the progress made by the Company for the first half of 1974 to continue through the balance of the year.

Edmund C. Bovey
Chairman and
Chief Executive Officer

Edward G. Battle
President and
Chief Operating Officer



NORTHERN AND CENTRAL GAS CORPORATION LIMITED

4600 Toronto-Dominion Centre
Toronto, Ontario M5K 1E5

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PRINCIPAL OPERATING COMPANIES:

Alberta

Canadian Industrial Gas & Oil Ltd.
640 Eighth Avenue, S.W., Calgary T2P 1G9
Coleman Collieries Limited
Coleman T0K 0M0

Manitoba

Greater Winnipeg Gas Company
265 Notre Dame Avenue
Winnipeg R3B 1N9

Ontario

NCgas
150 Consumers Road
Willowdale M2J 1R1

Quebec

Gaz Métropolitain, inc.
1155 Dorchester Blvd. H3B 3S5
Gaz du Québec, inc.
1155 Dorchester Blvd. H3B 3S5
Le Gaz Provincial du Nord de Québec Ltée
401 Richard Street, Rouyn

Northern
and Central
Gas
Corporation
Limited



Interim report
June 30, 1974



NORTHERN AND CENTRAL GAS CORPORATION LIMITED

To the Shareholders:

Six months' earnings

Total revenues for the six months ended June 30, 1974 were \$170,356,000, an increase of 29% over the same period in 1973. Net income applicable to common shares increased 69% to \$16,567,000 and basic earnings per share were \$1.23, up from 73¢ in 1973.

Gas distribution

The weather during the first six months averaged 6% colder than normal and 15% colder than the first half of 1973. Gas sales volumes increased 11% from 11.6 billion cubic feet to 12.9 billion cubic feet. Gas utility revenues were \$121,221,000 in 1974

compared to \$98,743,000 in 1973 and contributed \$12,993,000 to consolidated net income compared to \$9,783,000 in 1973.

Gas Supply

One of the prime objectives of management at this time is to ensure required supplies of gas to meet projected market demands and to help achieve this objective, the Company has established an office in Calgary, Gaz Métropolitain and Greater Winnipeg Gas have recently been granted permits to export additional supplies of gas from Alberta, and application to construct the required transmission facilities to deliver the added volumes of gas is now before the National Energy Board. It is apparent that before the end of the 1970's new gas supplies from the frontier areas of Canada will be required.

Oil and gas production

During the last twelve months world oil prices have risen dramatically to over \$10 a barrel. In Canada, agreement effective April 1, 1974 between the federal and provincial governments provides for a uniform price across the country equivalent to a wellhead price of \$6.50 a barrel, with a federal levy on exports of oil production being used to subsidize domestic consumption of higher priced crude oil imports. With the increase in value of Canadian hydrocarbon reserves, a ridiculous situation has developed; governments at the federal and provincial levels in seeking a greater participation in the proceeds of production have introduced a series of legislative measures, culminating in proposals contained in the federal budget of May 6, 1974. These proposals disallow for federal tax purposes royalty payments

COMPARATIVE STATEMENT OF INCOME (Unaudited)

(Thousands of Dollars)

	6 Months Ended June 30		12 Months Ended June 30	
	1974	1973	1974	1973
Revenues				
Sales and other revenues	\$170,356	\$132,464	\$300,842	\$240,961
Costs and expenses				
Gas purchases	73,691	54,148	133,551	103,439
Production, operations and maintenance	35,863	31,076	69,445	57,419
Depreciation and depletion	12,488	11,466	24,203	21,959
Taxes other than income taxes	2,721	2,841	4,933	5,282
Interest	14,154	13,284	27,651	25,361
Income taxes (see note)				
Current	2,865	2,025	1,667	1,185
Deferred	5,891	2,653	9,282	5,075
	<u>147,673</u>	<u>117,493</u>	<u>270,732</u>	<u>219,720</u>
	22,683	14,971	30,110	21,241

Income before minority interests

Minority interests in subsidiaries
Preference share dividends

Common share earnings

Income before extraordinary item
Reduction in a subsidiary's income taxes resulting from application of prior years' tax losses

Consolidated net income
Dividends on preference shares
Net income applicable to common shares (see note)

Earnings per share (including extraordinary item in 1974 of 6¢ per share)
basic
fully diluted

	363	402	727	857
	<u>4,312</u>	<u>2,442</u>	<u>7,038</u>	<u>4,075</u>
	4,675	2,844	7,765	4,932
	<u>18,008</u>	<u>12,127</u>	<u>22,345</u>	<u>16,309</u>
	856		856	
	<u>18,864</u>	<u>12,127</u>	<u>23,201</u>	<u>16,309</u>
	2,297	2,324	4,608	4,712
	<u>\$ 16,567</u>	<u>\$ 9,803</u>	<u>\$ 18,593</u>	<u>\$ 11,597</u>
	\$ 1.23	\$.73	\$ 1.39	\$.86
	<u>\$ 1.00</u>	<u>\$.65</u>	<u>\$ 1.25</u>	<u>\$.86</u>

Note: Commencing January 1, 1974 Canadian Industrial Gas & Oil Ltd. has adopted the deferred method of accounting for income taxes, thereby reducing consolidated net income for the six months ended June 30, 1974 by approximately \$2,900,000 (22¢ per share). For comparative purposes, 1973 figures have been restated from those previously reported to reflect such provision for deferred income taxes from the commencement of the respective periods.

COMPARATIVE STATEMENT OF SOURCE AND APPLICATION OF FUNDS (Unaudited)

(Thousands of Dollars)

	6 Months Ended June 30	
	1974	1973
Source of Funds		
From operations	\$ 18,864	\$ 12,127
Consolidated net income		
Charges not requiring funds, including depreciation and depletion, deferred income taxes and minority interests	23,918	17,003
Issue of common shares for cash	42,782	29,130
Increase in bank loans	26	13
Other items — net	<u>1,112</u>	<u>(14)</u>
	403	(74)
	<u>44,323</u>	<u>29,055</u>
Application of Funds		
Net additions to property, plant and equipment	32,393	16,156
Retirement of long-term debt	6,297	2,709
Dividends on common shares	4,025	4,024
Dividends on preference shares	2,297	2,324
Decrease in minority interest	333	348
Redemption of preference shares	36	120
Financing expenses and other deferred charges	204	1,319
Increase in investments	1,278	1,890
Acquisition of shares of subsidiaries	<u>3</u>	<u>1,318</u>
	46,866	30,208
	<u>\$ 2,543</u>	<u>\$ 1,153</u>

Decrease in Working Capital

Summary of Results

	1974	1973
Sales and other revenues	\$344,040,000	\$262,950,000
Consolidated net income	23,590,000	16,557,000
Net income applicable to common shares	19,003,000	11,922,000
Common shares outstanding	13,420,392	13,413,700
Earnings per share	\$1.42	89¢
Dividends paid per common share	60¢	60¢
Utility gas sales (Mmcf)	239,640	218,182
Oil and gas production (1)		
—oil and gas liquids—Barrels/Day	16,843	16,725
—natural gas —Mmcf/Day	134	128
—sulphur —Long tons	19,305	17,834
Coal production —Short clean tons	880,392	878,915

(1) Stated before deduction of royalties

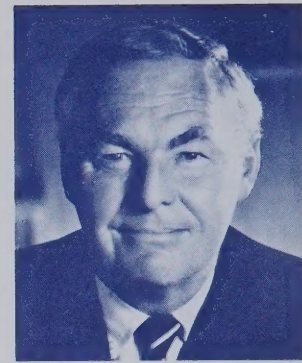
Canadian Industrial Gas & Oil Ltd.			
(000)	1974	1973	
Revenues	\$80,876	\$58,964	
Expenses	67,810	49,049	
Income before extra-ordinary item	13,066	9,915	
Extraordinary item	(2,334)		
Net Income	\$10,732	\$ 9,915	

Coleman Collieries Limited			
(000)	1974	1973	
Revenues	\$24,090	\$15,395	
Expenses	22,265	15,684	
Income before extra-ordinary item	1,825	(289)	
Extraordinary item	1,285		
Net Income (loss)	\$ 3,110	\$ (289)	

Greater Winnipeg Gas Company			
(000)	1974	1973	
Revenues	\$43,060	\$34,085	
Expenses	39,890	31,392	
Net Income	\$ 3,070	\$ 2,693	

Asgas			
(000)	1974	1973	
Revenues	\$92,091	\$74,152	
Expenses	88,887	71,544	
Net Income	\$ 3,204	\$ 2,608	

Gaz Métropolitain, inc.			
(000)	1974	1973	
Revenues	\$103,923	\$80,354	
Expenses	92,885	72,722	
Net Income	\$ 11,038	\$ 7,632	



Chairman's Report

By the time this Annual Report reaches shareholders, you will have received and had the opportunity to act on the plan for re-organization and amalgamation of Northern and Central Gas Corporation Limited and Canadian Industrial Gas & Oil Ltd.

Norcen Energy Resources Limited

The new company, Norcen Energy Resources Limited, is designed to maximize the future earnings potential for all shareholders by marshalling the group's diversified energy enterprises into a single economic structure of size and strength, better able to meet the anticipated investment opportunities of the future.

Norcen as a large and comprehensive organization, will in fact be more effective than the sum of the merging companies acting previously as separate identities. Norcen will provide a larger overall capacity to finance programs to develop natural energy resources and to direct cash flow into the most promising areas.

For shareholders, Norcen offers growth potential and stability resulting from a studied balance of diversified investments in the energy field.

Excellent year for Northern and Central

The past year proved an excellent one for Northern and Central Gas Corporation.

Earnings available to preferred and common shareholders increased from \$16.5 million in 1973 to \$23.6 million in 1974, or 42%; the best year-over-year improvement in the Company's 20 year history.

All subsidiaries and divisions contributed to this impressive advance. The operations of each of the companies in the group are reviewed in detail in the reports of the President and of the Executive Vice-President, Finance and Corporate Affairs.

It should be noted that the coal, oil and gas production operations benefited from higher prices during the year, and while considerably offset by higher taxes and royalties, had a positive effect on 1974 results.

Regulatory Results

During 1974, regulatory decisions in Quebec, Ontario and Manitoba were favourable. The net effect of the various rate increases granted during the past year, whether to cover increased gas

costs, higher operating costs or to provide a reasonable rate of return, increased gas sales revenues on an annual basis by \$61.0 million.

\$96 Million Acquisition by CIGOL

The acquisition by CIGOL of 100% of the shares of Great Plains Development Company of Canada, Limited is an excellent example of the increased capability Norcen Energy Resources Limited will be able to exert in taking advantage of outstanding investment opportunities when they present themselves. In the instance of Great Plains, CIGOL was in effect acting as an agent for the new company.

Conventional Use of Profit

Much apprehension has been stated by politicians, journalists and members of the public concerning allegedly excessive profits made by resource companies. This viewing with alarm often expressed itself in glib prejudicial criticism of resource industry's projection of capital needs in relation to profits retained.

To appreciate the need for capital beyond cash flow, let us consider our own company's case. In 1974, of \$70 million cash earnings, \$15.5 million was distributed in dividends to shareholders. The

balance, \$54.5 million, provided the major part of the \$78.5 million invested by the Company in exploring for new energy reserves to replace those now in production, and in additions to property, plant and equipment.

Environmental Protection Policies

During the year, all companies in the Northern and Central group continued programs of environmental protection. Work undertaken during 1974 by Gaz Métropolitain has considerably reduced air pollution from the Montreal Coke Plant and in 1975 this plant should substantially meet clean air requirements.

By supplying clean-burning natural gas to some of Canada's major cities, Northern and Central's utilities make an important contribution to the campaign for purer air. As a matter of strict policy, the extension of the group's distribution systems and transmission lines are planned and executed on the basis of protecting and maintaining the environments in which they are located.

Energy Conservation

The Company fully supports the energy conservation program recently announced by the Federal Government



as well as those developed by a number of provinces. All utilities in the Northern and Central group are encouraging customers to develop their own energy conservation programs by providing technical assistance and counsel.

Canada's Energy Needs

In overview, the year 1974 saw the question of energy, its cost and supply, become one of the most hotly contested political issues in Canada.

Hard new assessments brought the realization that presently known and accessible oil and gas reserves in conventional discovery areas would not fully meet the requirements of even a modestly expanding national economy in the 1980's.

At issue was the urgent political and fiscal accommodation of the energy industry's need for an assured and adequate return on invested capital in order to provide the huge amounts of risk capital to develop frontier reserves and to put in place the means of transportation to bring the already indicated resources to market. Governments were asked to act and make possible an early start on construction of a multi-billion dollar pipeline construction.

Unfortunately the increase in dollar profits in a year of international price rises touched off a tug-of-war between the producing provinces and the Federal Government regarding resource income sharing which resulted in government policies working counter-point to stimulating investment in energy development and provision. As a consequence of uncertain income expectations, the oil and gas industry has entered 1975 with reduced programs and budgets precisely at a time when increased activity is essential to prove up the necessary energy reserves for our foreseeable national needs.

Task Force on Gas Supply and Requirements

During the year, Northern and Central joined with other companies in an industry task force of producers, transmitters and distributors. The group's aim was to arrive at an informed understanding of the probable supply and demand for natural gas in Canada to 1985.

The Task Force's conclusion was based on a number of premises including governmental accommodation of industry's fiscal needs, co-operation within the industry, the maintenance of reason-

able discovery rates in the conventional areas and continued development of proven reserves.

Under such circumstances gas supply available for the Canadian market could grow at a rate of approximately 3.5% per year through 1981 against a demand growth of about 6.5% per year.

While an obvious shortfall between demand and supply was indicated, the projected growth in supply would mean continued provision for present customers and the accommodation of a modest growth. To achieve this basic target however, it is essential that continued exploration and drilling both for new gas as well as for development of present reserves be sustained.

Oil and Gas Taxes and Royalties

During 1974 there were major changes in prices, royalties and taxes which affected the prospects of the Canadian oil and gas industry. On the plus side, the wellhead price of crude oil increased from \$3.80 to \$6.50 per barrel. At the same time, in many instances virtually all of the \$2.70 increase, and in some cases more, went to governments as increased royalties and taxes.

The effect of these higher taxes and royalties, has been to funnel substantially increased cash flow into Provincial and Federal coffers and away from reinvestment by the industry for a secure future energy supply.

Shareholders of Northern and Central have an important stake in the production of gas and oil and the availability of a continued supply of natural gas for the Company's successful utility operations. I recommend very strongly that you make your interest in these matters known to your local members of parliament. Confiscatory resource taxation not only detrimentally affects the dividend return on your investment but severely erodes the market value of your shareholdings.

In Summary

This past year has seen a major improvement in the earnings trend for the Company, making possible a dividend increase on an annual basis from 60¢ in 1974, to 68¢ effective March 1, 1975. Shareholders can expect earnings in 1975 to show a further improvement over 1974.

For the energy industry in Canada as a whole, there are major problems, questions that must be resolved between



NORTHERN AND CENTRAL GAS CORPORATION LIMITED

all levels of government and the industry. In my view the approach to the main problems, namely supply, taxation, and a reasonable return on investment, should include:

- (1) An end to the tax disagreement between Federal and Provincial Governments.
- (2) Adequate financial incentives to insure maximum oil and gas exploration and development activities in Canada.
- (3) A long-term pricing, royalty and taxation policy for oil and gas to replace the current ad-hoc situation for both industry and government.
- (4) Effective energy conservation measures.
- (5) An all-out national effort now to get the Mackenzie Valley natural gas pipe line built as quickly as possible.

No economic enterprise operates well, solely as a result of its physical resources. In this regard Northern and Central and all companies in the group

are fortunate in having in their employ, so many dedicated and talented men and women. On your behalf and on behalf of your Company's management and Board of Directors, I wish to acknowledge their contribution to the progress we have made, and to record our appreciation in this Annual Report.

In turn, the management of Northern and Central wishes to express appreciation to the shareholders whose support has made possible the Corporation's successful growth and progress.

On behalf of the Board,

EDMUND C. BOVEY,
Chairman of the Board and
Chief Executive Officer.

March 14, 1975



President's Report

Revenues and net earnings in 1974 were at an all time high for the Company, with all segments of the Company's operations contributing to the improvement. Total revenues were \$344.0 million compared to \$263.0 million in 1973. Earnings applicable to common shares increased 59% from \$11.9 million in 1973 to \$19.0 million in 1974 with earnings per common share increasing from \$.89 to \$1.42. The cash flow in 1974 increased 29% to \$70.0 million.

Operating Results

Total utility revenues increased in 1974 from \$188.6 million to \$239.1 million. The contribution to consolidated net income was up 35% to \$14.5 million, primarily due to the weather pattern in our distribution areas being 10% colder than in 1973, plus the upgrading of gas price and gas utilization in our Ontario and Quebec markets. Gas sales were up 10% to 240 billion cubic feet and on November 1, 1974, gas supply was raised to 800.5 Mmcf per day from 721.3 Mmcf per day. New customers added were 12,170 and at year end the Company's utilities were serving 409,902 customers. Capital expenditures amounted

to \$36.7 million in 1974 and are budgeted at \$34.0 million in 1975.

The regulatory boards in Manitoba, Ontario and Quebec held public hearings on applications made by the utilities to pass through higher gas costs during the year. Full recovery of these costs were granted by the Manitoba and Ontario Boards while the Quebec Board granted about 85% pending the results of the present hearing. In Manitoba the Company was successful in applying for a new rate base and rate of return of 9.94%. A rate base and rate of return hearing was concluded in Ontario during the fall with the decision expected in the near future. In Quebec a full rate base and rate of return hearing is presently in progress.

During the year continued efforts were made to improve the Company's gas supply. Gaz Métropolitain and Greater Winnipeg Gas were successful in contracting with Alberta producers for 35.5 Mmcf per day and 10.0 Mmcf per day respectively for deliveries beginning November 1, 1974. Gas supplies for the year 1975 are sufficient to satisfy the current requirements of our existing customers.



One of the major problems confronting the industry today is the uncertainties created by the Provincial and Federal Governments in such matters as Provincial royalties and taxes and Federal taxation policies. Exploration activity in Canada has already decreased and will continue to do so, when in fact it should be accelerated in order to establish much needed new gas reserves. The politicians must quickly resolve these problems so that the industry can get on with the business of exploring for and developing new gas reserves.

In our coal operations, Coleman Collieries was successful early in 1974 in negotiating a price increase to \$29.00 per long ton for coal shipped to our Japanese customers. In addition, favourable adjustments in the ash and moisture content were also negotiated. The price increase which was effective on January 1, 1974 enabled Coleman to contribute \$2.5 million to consolidated net income compared to a net loss of \$237,000 in 1973. Production of clean coal for the year was 880,392 short tons. Operation of a new open pit mine recently com-

menced which should allow an increase in coal production for the year 1975.

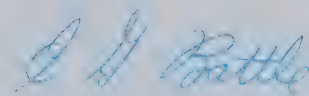
In our oil and gas operations, Canadian Industrial Gas & Oil contributed \$8.0 million to consolidated net earnings, before a write down of its investment in Elf of Canada, which is a 32% increase over \$6.0 million for 1973. CIGOL adopted retroactively the deferred method of accounting for income taxes, which necessitated the restatement of reported net income of previous years. Total revenues in 1974 increased to \$80.9 million from \$59.0 million while cash flow increased 23% to \$31.3 million. Higher prices at the wellhead for both crude oil and natural gas were the major factors for improvement.

Reserves at the end of 1974 before deduction of royalties, as estimated by company engineers and exclusive of discoveries in the Arctic and North Sea, were 81.3 million barrels of oil and gas liquids and 747 billion cubic feet of natural gas compared to 79.2 million barrels and 774 billion cubic feet as of the end of 1973. Average daily production rates for the year before royalty deductions were 16,843 barrels of oil and gas liquids

and 134.4 Mmcf compared to 16,725 barrels and 127.9 Mmcf in 1973. In 1974 CIGOL changed its method of reporting reserves and production statistics from net after deduction of all royalties to the Company's share of gross before deduction of royalties. The reserves as of December 31, 1973 and the 1973 production rates have been restated to reflect this change.

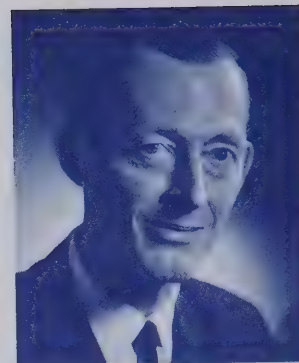
During the year, CIGOL participated in the drilling of 116 wells (38.6 net) resulting in 10 oil and 21 gas wells (3.35 and 8.38 net) respectively, with a substantial portion of this activity taking place in the southern portion of Alberta. An exploratory well drilled in the North Sea on Block 210-19 was abandoned after encountering a thick water-laden Jurassic sand. Geological and seismic data are currently being reviewed to determine whether an additional well should be drilled. CIGOL is currently participating in the drilling of a delineation gas well in Block 47-14 of the North Sea. In offshore Oman seismic surveys were conducted in 1974 and the drilling of an exploratory well will commence during the second quarter of 1975. CIGOL, for the account of Norcen Energy Resources Limited, when the reorganiza-

tion is effected, has purchased as of January 1, 1975 all of the outstanding shares of Great Plains Development Company of Canada, Ltd. for approximately \$96.0 million. The transaction is being financed primarily by two Canadian banks providing a ten year term loan. Great Plains is a natural resource company engaged in the exploration for and production of oil and natural gas. Reserves as of December 31, 1974 before royalty deductions were estimated at 59.0 million barrels of oil and gas liquids and 487 billion cubic feet of natural gas. For the year 1974 average daily production rates before deduction of royalties were 10,833 barrels of oil and gas liquids and 56.3 Mmcf of natural gas. The acquisition of Great Plains will add substantially to the reserves, production rates and financial performance of Norcen.



E. G. BATTLE
President and
Chief Operating Officer

March 14, 1975



Report of the Executive Vice-President, Finance and Corporate Affairs

Sales and other revenues by major type of activity during 1974 were:

	\$000's	%
Gas utilities	\$239,074	69
Oil and gas production	80,876	24
Coal production	24,090	7
	<u>\$344,040</u>	<u>100</u>

Income contributions by each of the principal companies in 1974 were:

	\$000's	%
Gas utilities		
<i>NCgas</i>	\$ 3,204	14
Gaz Métropolitain, inc.	8,218	34
Greater Winnipeg Gas Company . .	<u>3,062</u>	<u>13</u>
Total gas utilities	14,484	61
Oil and gas		
CIGOL	7,976	33
Coal		
Coleman	<u>1,493</u>	<u>6</u>
Income before extraordinary items . .	<u>\$ 23,953</u>	<u>100</u>

Extraordinary items reduced income by \$363,000 (3¢ per share): a charge of \$1,414,000 (11¢ per share) for a write down by CIGOL of its investment in Elf was largely offset by a recovery of Coleman's deferred income taxes of \$1,051,000 (8¢ per share).

After payment of preference dividends, net income applicable to common shares

increased 59% from \$11,922,000 (89¢ per share) in 1973 to \$19,003,000 (\$1.42 per share) in 1974.

Return on total debt and equity capital in 1974 was 8.5% compared to 7.2% in 1973. Return on preference and common shareholders' equity was 12.8% (9.3% in 1973) and return on common shareholders' equity was 17.8% (11.9% in 1973).

In 1974 CIGOL adopted retroactively the tax allocation or deferred method of accounting for income taxes. For comparative purposes 1973 and prior years' figures in this report have been restated to reflect such accounting change.

Expenditures on properties, plant and equipment by major categories and areas were as follows:

	\$000's	
	1974	1973
Gas utilities		
Ontario	\$11,291	5,302
Quebec	17,384	11,000
Manitoba	<u>8,065</u>	<u>4,900</u>
	<u>36,740</u>	<u>21,202</u>

Oil and gas exploration and production

Canada	24,012	
Foreign	9,023	2,279
	<u>33,035</u>	<u>19,842</u>

Coal production

Alberta	8,744	2,534
Total	<u>\$78,519</u>	

Capital expenditures for 1975 are estimated to total \$67,600,000; \$34,000,000 for the gas utility operations, \$30,000,000 for oil and gas exploration and production, and \$3,600,000 for coal production activities.

Financing

During 1974 funds for capital expenditures were provided from operations and from the issue of short term debt securities, including commercial paper and loans from chartered banks. No long term securities were issued.

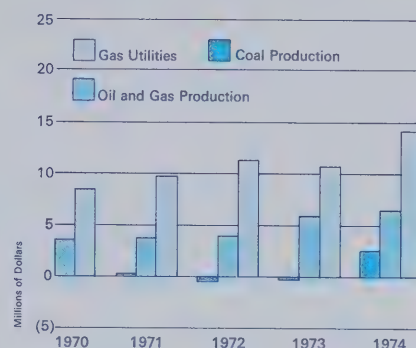
Early in 1975 the Company arranged for the issue and sale at par of \$25 million 11¼% 20 year first mortgage bonds; proceeds from the sale of these securities are being applied against short term borrowings. Also in 1975 a \$93 million ten year bank credit has been negotiated to finance the acquisition of Great Plains Development Company of Canada Ltd. No additional long term financing is presently planned for 1975.



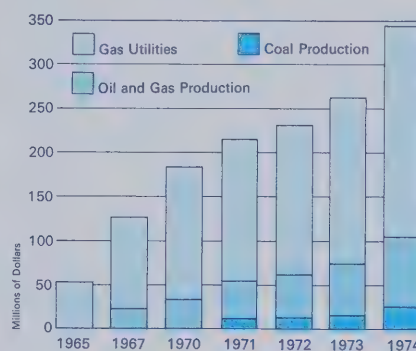
T. G. SHEERES,
Executive Vice-President,
Finance and Corporate Affairs.

March 14, 1975

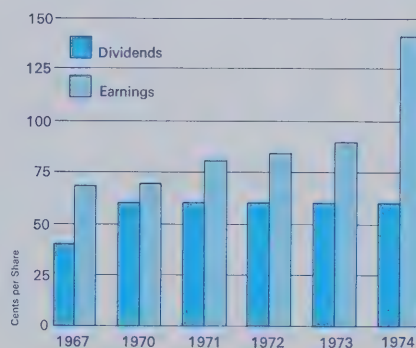
Contribution to Net Income



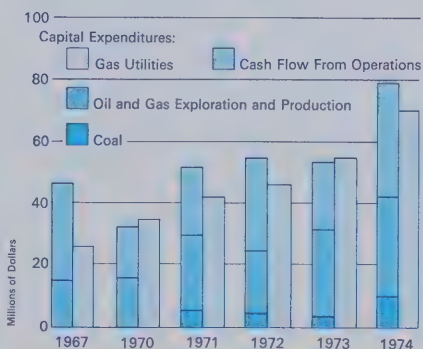
Sales and other Revenues



Earnings and Dividends per Share



Cash Flow from Operations Capital Expenditures





Accounting Policies

Certain accounting policies followed by Northern and Central Gas Corporation Limited and its subsidiaries are summarized here to facilitate a more comprehensive review of the financial statements contained in this report.

The consolidated financial statements include the accounts of the Company and all its subsidiaries; all inter-company transactions have been eliminated.

Gas utilities

Depreciation is provided on the straight-line method at rates approved by the respective provincial regulatory authorities. The application of such rates has been equivalent to an annual composite rate of approximately 2.8%.

Oil and gas exploration and production

Oil and gas properties include all expenditures related to the exploration and development of oil and gas reserves, whether or not potentially productive. These costs are depleted on the composite unit-of-production method, based on total estimated recoverable reserves.

Oil and gas production equipment and related facilities are depreciated on the straight-line method at various rates, the application of which has been equivalent to an annual composite rate of approximately 5.5%.

Coal

Coal properties include costs of land, exploration and development, together with the excess, \$14,247,000, of the Company's acquisition cost over the value of the net assets recorded by Coleman at date of acquisition.

Costs of producing properties are being depleted on the unit-of-production method based on estimated mineable reserves as determined by

Coleman engineers; costs of suspended properties are being amortized on the straight-line method over the remaining life of the present sales contracts (8 years). Amortization by the Company of the excess of its acquisition cost referred to above is being provided on a straight-line basis over 28 years.

Prior to January 1, 1973 the cost of producing and suspended coal properties was being amortized over the remaining life of the sales contracts on a unit-of-production basis. Effective January 1, 1973 Coleman adopted the policy outlined above, which had the effect of increasing amortization and reducing consolidated income for 1973 by approximately \$1,025,000. During 1974 Coleman gave retroactive effect to this change and restated 1972 production costs, which changes had the net effect of reducing 1972 consolidated income by \$299,000.

Production equipment is depreciated at various rates, the application of which has been equivalent to an annual composite rate of approximately 7.0%.

Intangible assets arising from

The excess of cash or other consideration attributed to the acquisition of shares of gas utility subsidiaries over the underlying book values of their net assets at dates of acquisition has been reflected as intangible assets arising from acquisitions. In the opinion of the Company no diminution in value of this item has occurred and accordingly these assets are not being amortized.

Deferred charges

The costs and expenses of issuing long-term debt are deferred in the year incurred and amortized against income over the term of the applicable issue.

The gas utilities defer in the year incurred certain expenses which the regulatory authorities require or permit to be recovered from future revenues; such charges are being amortized over various time periods, not in excess of 20 years.

Income taxes and restatement of prior years'

Gas utilities

The companies' rates and revenues, established for regulatory purposes, include recovery of only such income taxes as are currently payable on their utility operations. Accordingly, the companies provide income taxes on this basis and do not provide for income taxes which may be payable in future years as a result of current differences in timing of deductions, principally in respect of depreciation and amortization, for financial reporting and income tax purposes. Such income taxes not provided and not recovered in revenues amounted, before applicable minority interests, to \$8,500,000 in 1974, \$5,900,000 in 1973 and \$55,900,000 in total to December 31, 1974.

Oil and gas exploration and production

The companies claim amounts for income tax purposes, in respect of oil and gas properties and production facilities, in excess of the related depletion and depreciation provisions in the accounts, thereby reducing income taxes currently payable.

In 1974 the companies adopted, with retroactive effect, the tax allocation method of accounting under which the income tax provision is based on the income reported in the accounts. This method results in deferred income taxes being provided to the extent that taxes currently payable have been reduced by claiming amounts for income tax purposes in excess of those reflected in the accounts. For

comparative purposes, 1973 figures have been restated to reflect such provision for deferred income taxes.

This change in accounting resulted in a reduction of 1974 consolidated income of \$4,128,000 (\$.31 per share), of 1973 consolidated income of \$3,442,000 (\$.25 per share) and of consolidated retained earnings as at January 1, 1973 of \$17,351,000.

The 1974 provision for income taxes gives effect to income tax changes proposed in 1974 by the federal and provincial governments, and not yet enacted.

Coal

Prior to 1974 depreciation and amortization claimed for income tax purposes had been less than amounts provided for financial reporting purposes. Such differences are available for application against otherwise taxable income in ensuing years. The realization of this potential tax saving is dependent on future profitable operations, and accordingly such benefit has been recognized in 1974 only to the extent required to offset otherwise taxable income. At December 31, 1974, Coleman's unde depreciated cost of coal properties for income tax purposes exceeded their net book value by approximately \$2,000,000.

Earnings per common share

Earnings per common share have been calculated using the weighted monthly average number of common shares outstanding during the year (13,419,000 in 1974; 13,413,000 in 1973). Fully diluted earnings per common share assumes the conversion of convertible preference shares and the exercise of share options (exercise of warrants did not have a dilutive effect and accordingly was not included in the calculation).

**Statement of Income**

for the years ended December 31, 1974 and 1973 (thousands of dollars)

	1974	1973 (Restated) (a)
Revenues		
Sales and other revenues	\$344,040	\$262,950
Costs and expenses		
Gas purchases	158,082	114,008
Production, operations and maintenance	84,940	69,711
Depreciation and depletion (a)	25,712	23,181
Interest	29,225	26,781
Income taxes (a)—current	4,386	827
—deferred	9,550	6,042
	311,895	240,550
Income before minority interests	32,145	22,400
Minority interests in subsidiaries		
Preference share dividends	726	766
Common share earnings	7,466	5,077
	8,192	5,843
Income before extraordinary items	23,953	16,557
Extraordinary items:		
Reduction in a subsidiary's income taxes resulting from application of prior years' losses, after minority interest	1,051	
Write down of a subsidiary's investment (net of deferred income tax), after minority interest	(1,414)	
Consolidated net income	23,590	16,557
Dividends on preference shares	4,587	4,635
Net income applicable to common shares	\$ 19,003	\$ 11,922
 Earnings per share (a) (b)	 \$ 1.42	 \$.89
Fully diluted earnings per share (a) (b)	\$ 1.27	\$.88

(a) See "Accounting Policies".

(b) Including a loss on extraordinary items in 1974 of 3¢ per share.

Statement of Retained Earnings

for the years ended December 31, 1974 and 1973 (thousands of dollars)

	1974	1973
Balance at Beginning of Year		(Restated) (a)
As previously reported	\$ 43,771	\$ 36,622
Adjustments resulting from retroactive adoption of tax allocation accounting, after minority interest (a)	(20,793)	(17,351)
Adjustment in 1972 coal operations, after minority interest (a)	(299)	(299)
Other		(125)
As restated	22,679	18,847
Consolidated net income	23,590	16,557
	<u>46,269</u>	<u>35,404</u>
Dividends		
Preference shares	4,587	4,635
Common shares	8,051	8,048
Other	130	42
	<u>12,768</u>	<u>12,725</u>
Balance at End of Year	<u>\$ 33,501</u>	<u>\$ 22,679</u>

Statement of Changes in Financial Position

for the years ended December 31, 1974 and 1973 (thousands of dollars)

	1974	1973
Source of Working Capital		(Restated) (a)
Operations		
Income before extraordinary items	\$ 23,953	\$ 16,557
Charges not requiring working capital	46,014	37,796
Working capital provided from operations	69,967	54,353
Issue of long-term debt		5,010
Issue of common shares for cash	33	20
Increase in bank loans	7,401	17,706
	<u>77,401</u>	<u>77,089</u>
Application of Working Capital		
Additions to properties, plant and equipment	78,519	43,578
Retirement of long-term debt	11,931	11,445
Dividends on common shares	8,051	8,048
Dividends on preference shares	4,587	4,635
Dividends paid to subsidiaries' minority shareholders	2,835	1,491
Redemption of preference shares	736	935
Financing expenses and other deferred charges	2,070	2,072
Increase in other investments	3,370	2,479
Additional investment in subsidiaries	13	329
Decrease (increase) in minority interests	268	(374)
Other items, net	112	259
	<u>112,492</u>	<u>75,897</u>
Increase (Decrease) in Working Capital	<u>\$ (35,091)</u>	<u>\$ 1,192</u>

(a) See "Accounting Policies"



NORTHERN AND CENTRAL GAS CORPORATION LIMITED

Consolidated Financial Statements

Balance Sheet

as at December 31, 1974 and 1973 (thousands of dollars)

	1974	1973 (Restated) (a)
Current Assets		
Cash	\$ 2,745	\$ 2,746
Short-term interest bearing deposits	3,950	9,697
Accounts receivable	44,848	36,206
Unbilled gas, at selling price	5,527	5,295
Inventories, at the lower of cost and replacement cost	17,004	10,015
Prepayments, advances and deposits	1,693	2,410
	<u>75,767</u>	<u>66,369</u>
Investments, at cost less amounts written off (Note 2)	32,398	32,528
Properties, Plant and Equipment (Note 3) and (a)	751,744	680,347
Accumulated depreciation and depletion	174,169	155,579
	<u>577,575</u>	<u>524,768</u>
Deferred Charges, at amortized cost (Note 4) and (a)	16,057	16,547
Intangible Assets Arising from Acquisitions, at amortized cost (a)	35,820	35,820

Signed on behalf of the Board:

 Director.

 Director.

\$737,617 \$676,032

(a) See "Accounting Policies"

Auditors' Report

To the Shareholders

NORTHERN AND CENTRAL GAS CORPORATION LIMITED

We have examined the consolidated balance sheet of Northern and Central Gas Corporation Limited and its subsidiaries as at December 31, 1974 and December 31, 1973 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada
February 7, 1975

LIABILITIES

Current Liabilities

	1974	1973 (Restated) (a)
Commercial paper and unsecured income debentures	\$ 25,339	\$ 2,000
Bank loans of subsidiaries (Note 6)	8,442	6,033
Accounts payable	44,147	31,709
Accrued interest	6,188	6,299
Income and other taxes (a)	3,750	1,017
Current maturities on long-term debt (Note 5)	13,628	9,947
	<u>101,494</u>	<u>57,005</u>
Bank Loans (Note 6)	37,085	29,684
Long-term Debt (Note 5)	307,021	318,952
Minority Interests in Subsidiaries (Note 7)	60,160	55,763
Deferred Income Taxes (a)	42,462	35,352

Capital Stock (Note 8)

Authorized		
562,747 First preference shares \$50 each par value, issuable in series		
1,615,545 Second preference shares \$25 each par value, issuable in series		
4,000,000 Junior preference shares \$25 each par value, issuable in series		
30,445,160 Common shares without par value		
Issued		
128,321 First preference shares		
128,321 \$2.60 cumulative, first series (128,441 in 1973)	6,416	6,422
34,218 \$2.70 cumulative, second series (34,318 in 1973)	1,711	1,716
Second preference shares		
7,203 \$1.06 cumulative, series A (7,987 in 1973)	180	200
1,245,117 \$1.50 cumulative convertible, series B (1,273,317 in 1973) Junior preference shares	31,128	31,833
1,500,000 \$1.50 cumulative convertible, first series (1,500,000 in 1973)	37,500	37,500
13,420,392 Common shares (13,413,700 in 1973)	78,959	78,926
Retained Earnings (Note 9)	33,501	22,679
Total Shareholders' Equity	<u>189,395</u>	<u>179,276</u>
	<u>\$737,617</u>	<u>\$676,032</u>

We have previously reported on the consolidated financial statements for the year ended December 31, 1973 on February 8, 1974. Our opinion then was qualified because of uncertainties as to the recovery of the company's investment in Coleman Collieries Limited. Since issuing that report the operations of Coleman have improved which, together with other factors, has enabled us to withdraw the qualification and issue the opinion in the succeeding paragraph.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and December 31, 1973 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis, after giving retroactive effect to the changes, with which we concur, in accounting for income taxes and in accounting for coal operations, as explained in Note 1.

Riddell Stead & Co.

Chartered Accountants

**Notes to Consolidated Financial Statements**

for the years ended December 31, 1974 and 1973 (tabular amounts shown in thousands of dollars)

1. Accounting policies

The information on pages 12 and 13 presents a summary of certain accounting policies and is an integral part of these financial statements.

2. Investments

	1974	1973
Gas utilities		
Mortgages receivable	\$ 4,397	\$ 7,933
Canadian Arctic Gas Study Limited	2,563	1,693
Shares of Panarctic Oils Ltd.	650	650
Other	355	176
	<u>7,965</u>	<u>10,452</u>
Oil and gas exploration and production		
Shares of Elf Oil Exploration and Production Canada Ltd*	20,038	18,839
Shares of Panarctic Oils Ltd.	755	626
Other	3,640	2,611
	<u>24,433</u>	<u>22,076</u>
	<u>\$ 32,398</u>	<u>\$ 32,528</u>

*During 1974 the carrying value of this investment was reduced by \$3,500,000, based on a valuation determined by CIGOL.

3. Properties, plant and equipment

	1974			1973
	Cost	Accumulated depreciation and depletion	Net	Net
Gas utilities				
Coke plant	\$ 16,069	\$ 6,231	\$ 9,838	\$ 9,302
Gas storage	24,772	2,926	21,846	22,101
Gas distribution	373,399	52,643	320,756	304,118
Rental equipment	41,384	12,437	28,947	28,819
General plant	18,841	5,168	13,673	12,980
Construction in progress	7,506	—	7,506	488
	<u>481,971</u>	<u>79,405</u>	<u>402,566</u>	<u>377,808</u>
Oil and gas exploration and production				
Properties and equipment	171,784	56,973	114,811	91,460
Pipelines and processing plants	28,635	20,901	7,734	8,283
Propane marketing equipment	19,491	6,084	13,407	13,120
	<u>219,910</u>	<u>83,958</u>	<u>135,952</u>	<u>112,863</u>
Coal				
Properties	33,136	5,314	27,822	24,294
Production equipment	16,727	5,492	11,235	9,803
	<u>49,863</u>	<u>10,806</u>	<u>39,057</u>	<u>34,097</u>
	<u>\$751,744</u>	<u>\$174,169</u>	<u>\$577,575</u>	<u>\$524,768</u>

4. Deferred charges

	Basis or period of amortization	1974	1973
Gas utilities			
Long-term debt issue expense	*	\$ 7,418	\$ 8,063
Contribution to customers for conversion to natural gas	5 to 20 years	1,202	1,479
Special gas costs	10 to 20 years	3,665	4,016
Special rental appliance expense	13½ years	644	727
Extraordinary plant retirements	10 years	1,515	1,026
Other	2 to 5 years	761	726
		<u>15,205</u>	<u>16,037</u>
Oil and gas exploration and production		852	510
		<u>\$ 16,057</u>	<u>\$ 16,547</u>

*amortized over term of applicable issue

5. Long-term debt

	Due within one year	1974	1973
Gas utilities			
5½%-8½% first mortgage bonds, 1975-1992	\$ 8,404	\$160,138	\$167,281
6% general mortgage bonds, 1988-1989	375	10,260	10,635
9%% senior debentures, 1991		50,000	50,000
6% notes and subordinated notes, 1975-1987	587	7,546	7,683
5½%-9½% debentures, 1979-1991*	1,926	70,592	71,829
	<u>11,292</u>	<u>298,536</u>	<u>307,428</u>
Oil and gas exploration and production			
5½%-9% first mortgage bonds, 1976-1992	1,395	11,428	12,267
6¼% debentures, 1976		61	139
Notes and purchase agreements	97	4,502	4,503
	<u>1,492</u>	<u>15,991</u>	<u>16,909</u>
Coal			
12% debentures, 1981		660	660
7½% mortgage loans, 1981	250	1,727	1,977
Interest free note, 1981	300	1,835	1,835
Equipment notes	539	2,145	355
	<u>1,089</u>	<u>6,367</u>	<u>4,827</u>
	<u>\$ 13,873</u>	<u>320,894</u>	<u>329,164</u>
Deduct			
Long-term debt held for sinking fund purposes		245	265
Current maturities on long-term debt		13,628	9,947
		<u>13,873</u>	<u>10,212</u>
		<u>\$307,021</u>	<u>\$318,952</u>

*\$20,000,000 of 9½% debentures due July 2, 1991 are repayable at the option of the holders on July 2, 1975.

Securities issued in U.S. funds are included above at their Canadian dollar equivalents at their respective dates of issue. Long-term debt maturities and sinking fund requirements, for each of the four years subsequent to 1975, are as follows:

1976—\$15,000,000	1977—\$16,918,000
1978—\$22,144,000	1979—\$19,914,000

**6. Bank loans**

	1974	1973
The Company	\$ 7,025	\$ 8,925
CIGOL, secured primarily by oil and gas properties	33,263	23,057
Coleman, secured by accounts receivable	5,239	3,735
	<u>45,527</u>	<u>35,717</u>
Less current maturities included in current liabilities	8,442	6,033
	<u>\$ 37,085</u>	<u>\$ 29,684</u>

While these loans are evidenced by demand notes, the Company's loans are customarily repaid from the proceeds of long-term financing, and CIGOL has informal understandings with the banks that its loans will be repaid in monthly instalments.

7. Minority interests in subsidiaries

	1974			1973
	Preference shares	Common share equity	Total	Total
Gas utilities				
Greater Winnipeg Gas	\$	\$ 68	\$ 68	\$ 74
Gaz Métropolitain	13,342	9,213	22,555	21,513
Oil and gas exploration and production				
CIGOL		35,451	35,451	32,622
Coal				
Coleman	2,035	51	2,086	1,554
	<u>\$ 15,377</u>	<u>\$ 44,783</u>	<u>\$ 60,160</u>	<u>\$ 55,763</u>

8. Capital stock**Preference shares**

During 1974 the Company purchased for redemption 120 first preference shares, first series, 100 first preference shares, second series, 784 second preference shares, series A and 28,200 second preference shares, series B.

First preference shares, first and second series, are currently redeemable at \$52.00 and \$50.50 per share, respectively, and do not presently have voting rights. The second preference shares, series A, are redeemable at \$27.50 per share and have voting rights. The second preference shares, series B (redeemable at \$26.50 per share after August 14, 1976) have voting rights and are convertible into 2,241,210 common shares to August 15, 1977. The junior preference shares, first series (redeemable at \$26.25 after June 30, 1975) have voting rights and are convertible into 2,586,206 common shares to June 30, 1977 and thereafter into 2,343,750 common shares to June 30, 1982.

Common shares

During 1974 3,501 common shares were issued for a cash consideration of \$33,000 pursuant to the employees' share purchase plan and 3,191 common shares were issued on exercise of incentive stock options.

Unissued common shares are reserved as follows:

15,065	under the employees' share purchase plan, of which 2,347 shares are being subscribed for at prices ranging from \$7.47 to \$11.56 per share,
1,981	for the exercise of warrants at prices increasing from \$13.50 to \$15.00 per share and expiring in 1978,
799,325	for the exercise of warrants at \$14.00 per share and expiring in 1977,
430,704	for the incentive stock option plan, of which options on 400,500 shares were outstanding at December 31, 1974, exercisable at prices from \$9.75 to \$15.88 and expiring to 1979. During 1974 options on 120,000 shares were granted, options on 13,000 shares were exercised and options on 11,500 shares expired.
<u>1,247,075</u>	

9. Dividend restrictions

The indentures and agreements relating to the Company's long-term debt obligations contain covenants limiting the payment of dividends. Under the most restrictive of these indentures, retained earnings available for dividends amounted to approximately \$12,500,000 at December 31, 1974 (\$9,300,000 at December 31, 1973).

10. Subsequent event

By an agreement dated as of January 1, 1975, CIGOL agreed to purchase, subject to certain conditions, all of the outstanding shares of Great Plains Development Company of Canada, Ltd. for approximately \$95,600,000. Arrangements have been made to finance the purchase principally through long-term bank borrowings.

11. Corporate reorganization

The Boards of Directors of the Company and its 61% owned subsidiary, CIGOL, have approved a reorganization whereby the shareholders of the Company (with the exception of the first preference shareholders) and the minority shareholders of CIGOL would exchange their shares for similar shares of a new parent company, which would carry on the existing CIGOL operations and hold all of the shares of the Company (except for the first preference shares) and the Coleman securities presently owned by the Company. The reorganization is subject to approval by the shareholders of the Company and of CIGOL as well as the satisfaction of a number of conditions.

12. Other information

Unfunded liabilities for past service pension benefits amounted to approximately \$2,600,000 at December 31, 1974 and are being funded over a maximum period of twenty years.

Remuneration of directors and senior officers paid by the Company was \$667,000 (\$666,000 in 1973) and paid by subsidiaries was \$345,000 (\$309,000 in 1973).

Comparative Financial Data 1970-1974

(dollar amounts, except per share figures, in thousands)

	1974	1973	1972	1971	1970
Revenues					
Gas utilities	\$239,074	\$188,591	\$170,557	\$162,169	\$149,338
Oil and gas production	80,876	58,964	47,432	41,271	33,196
Coal production	24,090	15,395	12,775	12,357	
	<u>344,040</u>	<u>262,950</u>	<u>230,764</u>	<u>215,797</u>	<u>182,534</u>
Costs and expenses					
Gas purchases, production and operations	243,022	183,719	161,195	151,344	126,238
Depreciation and depletion	25,712	23,181	20,010	18,018	15,645
Interest	29,225	26,781	24,745	25,124	21,674
Income taxes	13,936	6,869	5,776	4,653	4,235
Minority interests	8,192	5,843	4,172	3,121	2,859
	<u>320,087</u>	<u>246,393</u>	<u>215,898</u>	<u>202,260</u>	<u>170,651</u>
Income before extraordinary items					
Gas utilities	14,484	10,754	11,267	9,754	8,463
Oil and gas production	7,976	6,040	3,970	3,664	3,420
Coal	1,493	(237)	(371)	119	
	<u>23,953</u>	<u>16,557</u>	<u>14,866</u>	<u>13,537</u>	<u>11,883</u>
Extraordinary items (net)	(363)				
Consolidated net income	<u>\$ 23,590</u>	<u>\$ 16,557</u>	<u>\$ 14,866</u>	<u>\$ 13,537</u>	<u>\$ 11,883</u>
Dividends on preference shares	\$ 4,587	\$ 4,635	\$ 3,604	\$ 2,629	\$ 2,716
Earnings applicable to common shares	\$ 19,003	\$ 11,922	\$ 11,262	\$ 10,908	\$ 9,167
Weighted average number of common shares (000's)	13,419	13,413	13,410	13,189	12,758
Earnings per common share	\$ 1.42	\$.89	\$.84	\$.81	\$.69
Fully diluted earnings per common share	\$ 1.27	\$.88	\$.84	\$.81	\$.69
Dividends per common share	\$.60	\$.60	\$.60	\$.60	\$.60

Comparative Statistical Data 1970-1974

	1974	1973	1972	1971	1970
Gas utilities					
Gas sales—Mmcf					
Industrial, firm	102,644	90,805	84,888	73,450	62,334
Industrial, interruptible	49,490	48,171	41,254	49,031	50,866
Commercial	38,264	33,847	33,623	29,303	29,118
Residential	49,242	45,359	48,499	43,869	43,778
Total	239,640	218,182	208,264	195,653	186,096
Customers at year end					
Industrial	2,077	2,086	2,050	2,072	2,038
Commercial	29,610	28,103	27,179	26,364	25,730
Residential	378,215	376,646	374,315	370,985	369,508
Total	409,902	406,835	403,544	399,421	397,276
Expenditures for plant and equipment (000's)	\$ 36,740	\$ 21,202	\$ 30,027	\$ 22,956	\$ 17,189
Oil and gas exploration and production					
Production (i)—oil and gas liquids—Barrels/Day	16,843	16,725	11,622	10,604	9,600
—natural gas —Mmcf/Day	134.4	127.9	98.8	93.4	95.2
—sulphur —Long tons	19,305	17,834	14,680	13,690	13,400
Gas gathering and transmission sales—Mmcf/Day	142.8	146.4	139.4	125.8	120.8
Oil gathering and transmission throughput—Barrels/Day	98,500	110,800	113,400	117,600	122,300
Liquefied petroleum gas sales—Thousands imperial gallons	94,800	95,900	88,400	76,500	67,400
Reserves (i)—oil and gas liquids—Barrels (000's)	81,298	79,159	70,216	69,733	63,775
—natural gas —Mmcf	746,910	773,528	582,200	603,700	619,600
—sulphur —Long tons	305,700	252,000	226,800	241,000	255,000
Petroleum, natural gas and mineral rights					
—gross acres (000's)	30,038	23,381	20,066	23,409	16,336
—net acres (000's)	12,345	11,984	10,966	14,223	11,101
(i) stated before deduction of royalties for 1974 and 1973, and after deduction of royalties for other years.					
Coal production					
Coal production—short clean tons	880,000	879,000	816,000	867,000	

**PRINCIPAL OPERATING COMPANIES****Alberta**

Canadian Industrial Gas & Oil Ltd.

640 Eighth Avenue, S.W.,

Calgary T2P 1G9

Coleman Collieries Limited

Coleman T0K 0M0

Manitoba

Greater Winnipeg Gas Company

265 Notre Dame Avenue,

Winnipeg R3B 1N9

Ontario

150 Consumers Road,

Willowdale M2J 1R1

Quebec

Gaz Métropolitain, inc.

1155 Dorchester Boulevard W.,

Montreal H3B 3S5

Gaz du Quebec, inc.

1155 Dorchester Boulevard W.,

Montreal H3B 3S5

Le Gaz Provincial du Nord de Quebec Ltée

401 Richard Street,

Rouyn J9X 4L4

Transfer Agents**First Preference Shares**Montreal Trust Company in Toronto, Montreal, Winnipeg,
Calgary and Vancouver**Second Preference Shares**National Trust Company, Limited in Toronto, Montreal,
Winnipeg, Calgary and Vancouver**Junior Preference Shares**National Trust Company, Limited in Toronto, Montreal,
Winnipeg, Regina, Calgary and Vancouver**Common Shares**National Trust Company, Limited in Toronto, Montreal,
Winnipeg, Regina, Calgary and Vancouver
Chemical Bank in New York**Distribution of Common Shares**

December 31, 1974

Provinces	Shareholders	Shares
British Columbia . .	14.0%	6.3%
Alberta	6.9%	2.7%
Manitoba	5.4%	6.1%
Ontario	47.9%	41.8%
Quebec	11.3%	34.8%
Other Canadian . . .	7.2%	3.1%
Total Canadian . .	92.7%	94.8%
Total Non-Canadian	7.3%	5.2%
	100.0%	100.0%

Common Shares Listed on Toronto, Montreal, Winnipeg,
Vancouver and New York Stock Exchanges**Registrars****First Preference Shares**Montreal Trust Company in Toronto, Montreal, Winnipeg,
Calgary and Vancouver**Second Preference Shares**National Trust Company, Limited in Toronto, Montreal,
Winnipeg, Calgary and Vancouver**Junior Preference Shares**Montreal Trust Company in Toronto, Montreal, Winnipeg,
Regina, Calgary and Vancouver**Common Shares**Montreal Trust Company in Toronto, Montreal, Winnipeg,
Regina, Calgary and Vancouver
Morgan Guaranty Trust Company of New York in New York**Trustees**Montreal Trust Company
First Mortgage and Collateral Trust BondsNational Trust Company, Limited and
Bankers Trust Company, New York
5¼% Subordinated Debentures due 1982Guaranty Trust Company of Canada
6% Subordinated Debentures due 1982Canada Permanent Trust Company
6% Subordinated Sinking Fund Debentures due 1985
6½% Subordinated Sinking Fund Debentures due 1988
9½% Subordinated Sinking Fund Debentures due 1991Crown Trust Company
9% Senior Debentures due 1991

★ Principal offices of
the companies in the
Northern and Central Group.



Northern and Central Gas Corporation Limited is a 95% Canadian-owned energy Resources company, comprised of a group of companies engaged in exploration, development, production, transmission and distribution of hydrocarbons. Northern and Central's head office is in Toronto, Ontario.

Canadian Industrial Gas & Oil Ltd., (CIGOL), 61% owned, explores for, develops, produces, transmits and distributes crude oil, natural gas and gas liquids. CIGOL's head office is in Calgary, Alberta but its operations extend throughout Canada and overseas.

Coleman Collieries Limited, 82% owned, explores for, develops, produces and sells coking and thermal coal to export and domestic markets. Coleman's operations are in the province of Alberta.

Greater Winnipeg Gas Company, 99% owned, distributes natural gas in and around the city of Winnipeg, Manitoba.

ICgas a self-contained operation, transmits and distributes natural gas in northwestern, northeastern and eastern Ontario and in northwestern Quebec.

Gaz Métropolitain, inc., 82% owned, distributes natural gas in the city of Montreal, suburbs and east of Montreal.



Northern and Central Gas Corporation Limited

4600 Toronto-Dominion Centre, Toronto, Ontario, Canada M5K 1E5